

SUSTAINABLE WATER AND SANITATION IN AFRICA (SUWASA)

Reform Work Plan (RWP)

Support for Sustainable Small Scale Operators in
Maputo and Matola

Revision: April 12, 2011

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ACRONYMS AND ABBREVIATIONS

AdM	Águas de Mozambique
CRA	Conselho de Regulação do Abastecimento de Água
DCOP	Deputy Chief of Party – Nairobi SUWASA Team
DMF	Delegated Management Framework
DNA	Direcção Nacional de Águas
EGAT	Bureau of Economic Growth, Agriculture and Trade (USAID)
FIPAG	Fundo de Investimento e Património do Abastecimento de Água
GOM	Government of Mozambique
ICP	International Cooperating Partner
MCC	Millennium Challenge Corporation
MOPH	Ministério das Obras Públicas e Habitação
M&E	Monitoring and Evaluation
MIPAR	Manual de Implementação dos Projectos de Água Rural
PNA	Polícia Nacional de Águas
POPs	Pequenos Operadores Privados
PPP	Public-Private Partnership
RWP	Reform Work Plan
SIP	(SUWASA) Small Investment Program
SAPW	Strategic Action Planning Workshop
SOW	Statement of Work
SSIP	Small Scale Infrastructure Provider
SUWASA	Sustainable Water and Sanitation in Africa
USAID	United States Agency for International Development
WSP	Water and Sanitation Program (World Bank)
WSS	Water and Sanitation Services

Project Summary Sheet

Project Title	Support for Sustainable Small Scale Operators in Maputo and Matola
Country	Mozambique
Specific Location	Maputo and Matola
Main Objectives	The overall goal of the project is to improve the provision of water within the existing and expanded service areas of Maputo and Matola by clarifying the institutional and regulatory framework within which POPs operate
Specific Objectives	<ul style="list-style-type: none"> Assisting the GOM in defining a clear strategy on the future roles of POPs and strengthening the Policy, Legal, Operational, and Regulatory Framework for Small Scale Providers of Water Supporting the <i>Regularization</i> of existing POPs Developing Pilot/Demonstration SSIP Projects and Improving Public-Private Dialogue
Project Duration	24 months
Total Budget	\$1,024,422 (<i>One million and twenty four thousand four hundred and twenty two United States Dollars</i>).
Approximate Commencement Date	May 2011
Prime Implementing Organization	Tetra Tech ARD, through SUWASA Regional Office, Nairobi. Project coordinator to be hired and based in Maputo, Mozambique
Implementing Partners	Main implementation partner: Directorate of Water (DNA) Other partners: <ul style="list-style-type: none"> FIPAG (Asset holding and investment fund) CRA (Water Regulatory Council) POPs (Small scale independent providers)
Key Project Implementation Staff	<ul style="list-style-type: none"> Team Leader –TBD STTA in different areas
Reporting Requirements	Monthly, quarterly and mid-term (after 12 months) and end of project report (after 24 months)
Project Partner Contribution	<ul style="list-style-type: none"> Office space Staff time from the DNA, CRA and FIPAG

INTRODUCTION

Sustainable Water and Sanitation in Africa (SUWASA) is a six-year USAID initiative to assist countries of sub-Saharan Africa in progressing toward the Millennium Development Goals for water supply and sanitation. SUWASA focuses on catalyzing change among African decision makers in how they address water supply and sanitation sector challenges, by promoting reforms based on market-based principles.

This SUWASA project will be implemented in the Greater Maputo metropolitan area (Maputo and the nearby town of Matola). The existing water supply network does not cover the entire service area of these localities resulting in a shortage of piped water services in urban pockets and peri-urban areas including some sections within the service area of AdM –the main service provider. Consequently, a number of small scale private operators have established themselves to fill this service void. These spontaneous small-scale service providers or *Pequenos Operadores Privados* (POPs) as they are known in Mozambique, (literally translated as, small private operators) form an integral part of urban water supply arrangements in country, particularly in the Maputo-Matola corridor.

The overall goal of the project is to improve the provision of water within the existing and expanded areas of Maputo and Matola by clarifying the operational framework within which POPs operate. This will be done through improving the licensing system, bringing the POPs into the regulatory framework, and enhancing the capacity of responsible government agencies to refine, issue, and enforce licenses. The project will also enhance the capacity of the associations of the POPs to support their members, by providing effective communications between government, customers, and operators – with the ultimate goal being the regularization of small-scale operators from the current POPs to formally contracted small scale infrastructure providers (SSIPs).

The project will therefore:

- Support DNA and FIPAG in clearly defining a strategy on the role of small scale providers in the provision of urban water services in Mozambique taking into account the evolving institutional, operational, and regulatory framework for the existing and expanded water supply network for Maputo/Matola.
- Support CRA in refining the policy, legal and regulatory framework for small-scale providers, including clarifying requirements for licensing and monitoring of POPs to ensure adequate water quantity and quality of service, and cost reflective but equitable pricing of service.
 - Work through existing POPs associations (local to Maputo/Matola), to provide a more effective channel and forum for communications between the POPs and Government with a goal of rolling out effective and transparent service standards and reporting practices; and
 - Demonstrate best practices for normalizing the institutional roles and relationships of provision of water through small-scale operators within the target service area in the form of structured and procured SSIP contracts.

This proposed SUWASA activity will be accomplished within 24 months and with a total budget of up to US\$1,024,422. The implementing partner of the project will be the Directorate of Water (DNA). DNA will also provide office accommodation to the project. USAID/Mozambique has expressed support for the SUWASA project, although the Mission currently does not plan to provide co-funding to the activity. The Mission would, however, like to be kept current on the implementation of the project and in this respect has requested a simple but comprehensive communication and coordination process for informing and appropriately involving USAID staff in key events and activities. A contact person for the Mission has been designated and the

SUWASA Team will ensure adequate communication on planned activities, project progress and outcomes and opportunities for joint programming.

1 PARTNERSHIP STATEMENTS

LETTER OF COMMITMENT FROM DIRECÇÃO DE ÁGUAS (DNA)

Mr. Stefan Kauder
Chief of Party
Sustainable Water and Sanitation in Africa (SUWASA)
SUWASA Office Nairobi
P.O. Box 38454 - 00623
Nairobi, Kenya

Dear Mr. Kauder:

The Direcção Nacional de Águas (DNA) is committed to fully support and participate in the execution of the enclosed Reform Work Plan (RWP) for the **Small-Scale Infrastructure Providers - Water** project as proposed for financing under the USAID Sustainable Water and Sanitation in Africa (SUWASA) program. To that end, DNA will contribute resources in-kind for office space and technical staff level of effort in support of the project.

The proposed water supply reform project that the enclosed RWP describes in detail is a priority for our organization for the following reasons:

- DNA, as the lead agency in the licensing of POPs, would like to ensure that the licenses result in improved provision of quality water services to residents of Maputo and Matola;
- DNA has the need and mandate to tender new SSIPs in service areas that fall outside the planned service expansion areas or that provide the opportunity to more quickly achieve service expansion in peri-urban areas;
- There is a need for implementation of a regulatory system that is more coordinated, integrated and well-understood by all agencies, service providers and the general public; and
- Existing service associations, representing POPs/SSIPs, need to better represent and communicate the concerns and issues affecting these small-scale independent operators with government and the public as well as receive direction from government and feedback from consumers and convey it to members.

The project will support sustainable reforms in water and sanitation aimed at:

- Increasing sector-level autonomy, accountability, and customer orientation of utilities and other water and sanitation service providers;
- Implementing innovative formal agreements to improve accountability for water supply services;

- Operationalizing licensing and regulatory provisions and instruments; and
- Supporting strategies to improve access of water and sanitation services in the peri-urban areas of Maputo and Matola.

Sincerely,

Senhor Jaime Matsinhe
National Director

2 IMPLEMENTATION ENVIRONMENT AND ARRANGEMENTS

2.1 PROJECT CONTEXT

Mozambique has a population of 20 million of which about 6.7 million or 34% is urban, an increase from 8.7% in 1975. Mozambique's urbanization rate is 5.09% compared to the average annual urban population growth of 3.56% for Africa (UNDP, 2006). With a population of approximately 1.2 million the capital, Maputo, is the country's largest city. Mozambique is one of a handful of African Lusophone countries which include Angola, Guinea Bissau, Sao Tome et Principe and Cape Verde.

In 1995, the Government of Mozambique (GOM) initiated a wide ranging reform of the water sector, targeting the improvement of services in the major towns. Starting with the approval by Cabinet of a National Water Policy, a number of Cabinet Decrees, which together form the Delegated Management Framework (DMF), were approved and enforced from 1998. The DMF provides the institutional framework for the provision of urban water supply services, with a clear division of roles and responsibilities for the regulation, infrastructure investment, systems operations, and strategic oversight being shared among four separate organizations.

2.1.1 INSTITUTIONAL FRAMEWORK FOR URBAN WATER SERVICES

Mozambique has clearly defined institutional roles and responsibilities for the delivery of water services. Four key government institutions have important roles:

- Direcção Nacional de Águas (DNA) in the Ministry of Public Works and Housing (MOPH), sets overall strategic direction for the development of the water and sanitation sectors, develops all policy and monitoring programs for water services, and manages the nation's water resources;
- Fundo de Investimento e Património do Abastecimento de Água (FIPAG), was established in 1998 as the asset holding entity and investment fund to define the management and service



Figure 2-1: Map of Mozambique

[Source: <http://mapsof.net/mozambique>]

delivery structures for the 13 largest urban centers, including Maputo, Beira, and Nampula, among others. Seven other urban centers were added to FIPAG's portfolio in May 2009.

- The Conselho de Regulação do Abastecimento de Água (CRA) has responsibility for regulatory oversight of FIPAG operators and is undergoing an expansion of its mandate to regulate non-FIPAG systems; and

Operators, such as Águas de Mozambique (AdM)¹, manage system operations within major cities.

Though municipalities are generally responsible for the provision of water services to small towns that are outside of the delegated management framework, there have been some efforts to extend the DMF, and a new 20-month World Bank loan-financed Technical Assistance project has been initiated to operationalize the proposed DMF for small and medium sized towns. The interrelationships among the different institutions in FIPAG service areas are shown in Figure 2, with Maputo as illustration.

The Ministry of Finance (MPF) may borrow money from international funding agencies on behalf of the government and on-lend it to FIPAG for investment in water sector infrastructure. Until recently, FIPAG administered two contracts with AdM for water supply, one a lease contract for Maputo/Matola and the other a management contract for Beira, Quiliemane, Nampula and Pemba. FIPAG's lease contract with AdM in Maputo and Matola was to run through 2014, however, FIPAG recently bought out the majority shareholder (Aguas de Portugal) "by mutual agreement."² The International Finance Corporation (IFC) recently conducted a study to address options for post-AdM contracts

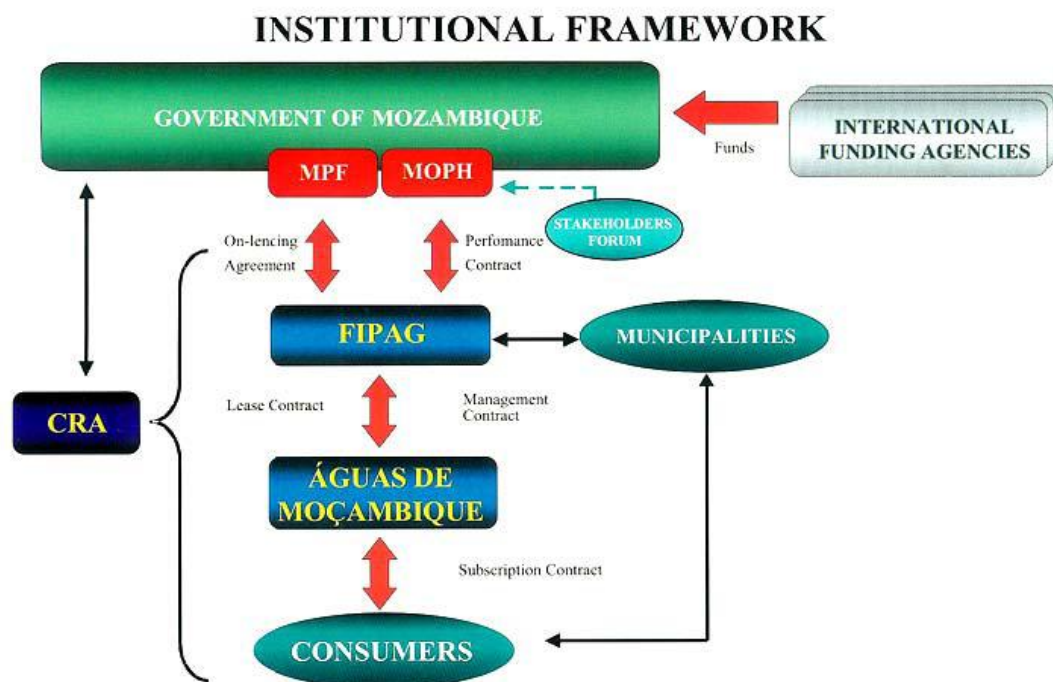


Figure 2-2: Institutional framework for urban water services in Maputo

¹ On April 6, 2011 FIPAG assumed control of AdM after acquiring the majority stake in the enterprise from Aguas de Portugal (AdP).

² Source: AIM News

2.1.2 LEGAL AND REGULATORY FRAMEWORK FOR URBAN WATER SERVICES

Though the DMF was defined in 1998, the National Water Act was passed in 1991. In the Act, the Government of Mozambique formally recognized the role of the private sector in the provision of water and sanitation services. The 1995 approval of the National Water Policy (PNA) and the Manual de Implementação dos Projectos de água Rural (MIPAR) provided specific requirements for

financial and administrative decentralization of water supply and an emphasis on using private sector operators. From lessons learned during the next several years through financial decentralization pilots, government developed specific frameworks for implementation of decentralized services and the utilization of private-sector operators. The Water Act and the PNA endorse the following principles and objectives (among others):

- Increasing the access of the population, especially the poor and rural population, to water supply and sanitation services;
- Improving cost recovery to create financially viable services;
- Defining the role of the State in establishing priorities and standards, promoting the development of services, regulating services and investing in infrastructure.
- Delivering services by autonomous service companies or private operators that strive for managerial, financial and operational excellence.

CRA's mandate is to protect consumers, regulate service quality, approve changes in tariffs, and promote and improve the delegated management framework. Initially it was established to regulate water supply services in the five service areas where services are operated under delegated management and to provide regulatory advice for the nine FIPAG services receiving managerial technical assistance. Under Decree nr. 18/2009 of May 13, the mandate of CRA was expanded to non-FIPAG towns and now includes sanitation services as well.

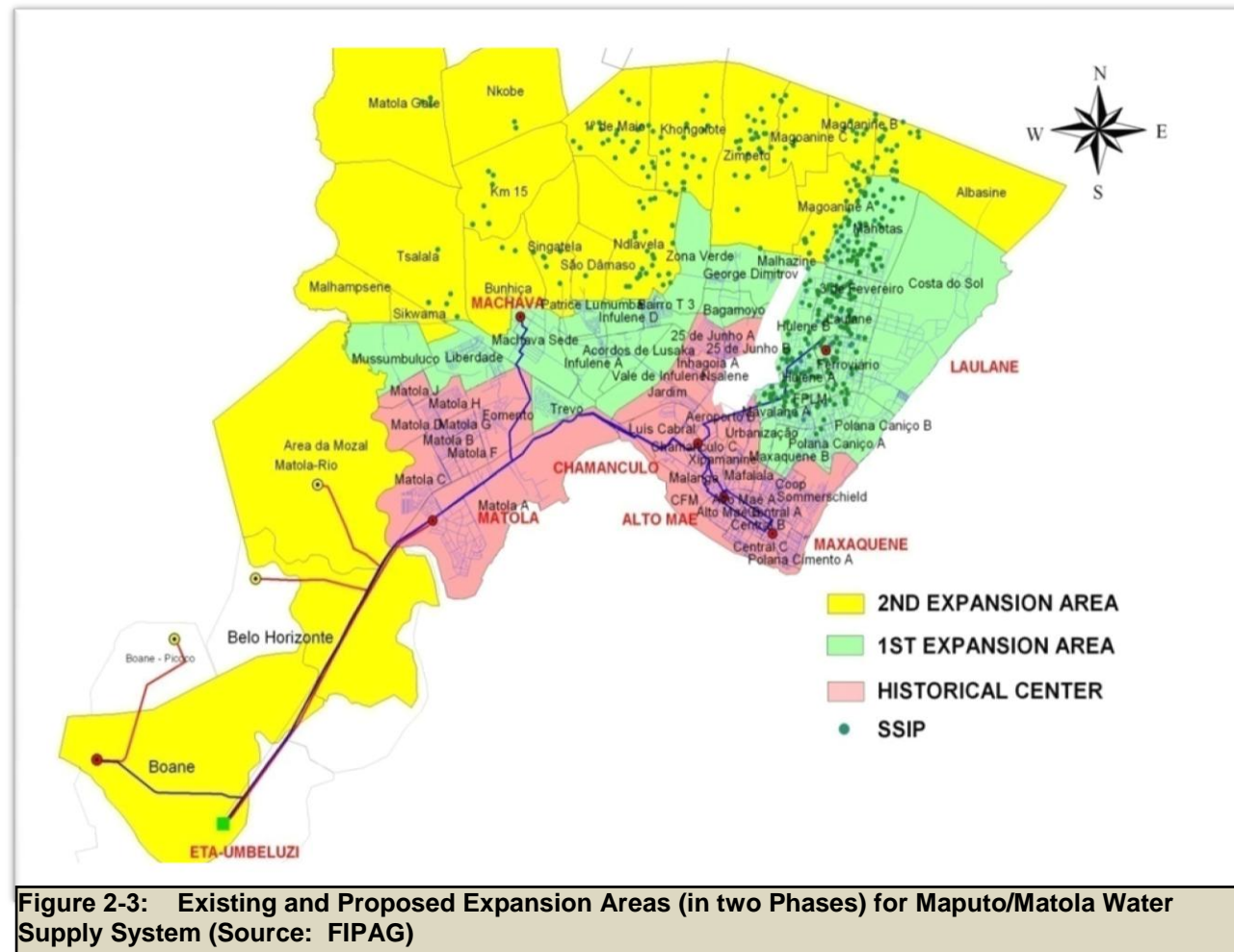
	Urban (37%)	Rural (63%)	National Average
Water			
Basic	72%	28%	43%
Connection	18%	2%	8%
Sanitation			
Basic	53%	19%	32%
Sewerage	4%	0%	1%

Source: African Development Bank

Table 2-1: Accessibility to water and sanitation in Mozambique

2.1.3

Peri-urban areas of the Maputo- Matola corridor, lack sufficient coverage from the AdM network. Therefore, numerous small-scale operators provide water to their respective neighborhoods. These spontaneous small-scale service providers, or *Pequenos Operadores Privados* (POPs), as they are known in Mozambique, (literally translated as, small private operators) form an integral part of the water supply arrangements in the country, particularly in the Maputo-Matola corridor. As seen in Figure 3, AdM provides water to the historical center area of Maputo (red). AdM also provides services in most of the first system expansion area (green). AdM operates under a 15-year lease contract, expiring in 2014, with FIPAG providing capital investments for expansion of the system. The contract for operating in the expanded areas will have to be retendered for operation of the system and facilities. Technically speaking, AdM is still a private company even with FIPAG owning the controlling shares, and continues to implement its lease contract.



According to plans, approximately 73% of the current AdeM service area (red and green areas of Figure 1) will be provided with water infrastructure by end of 2011. Additionally, it is expected that the development of a second intake, from the Incomati River, will provide water to most of the Second Expansion Area during the same time period. FIPAG's current assumption is that this second expansion service area will be managed as a series of smaller distribution systems, each allocated to SSIPs, which have management capacity.

The POPs represent at least \$20 million in private investment, filling a public investment gap that has caused the formal system to lag behind the rapid development and expansion of settlements. FIPAG is financing infrastructure expansion and determining the best organizational framework for operating and managing the greater Maputo and Matola service area. Five basic small-scale distribution networks, recently completed within the first expansion area, have been or are being contracted out to small-scale operators, under the supervision and oversight of AdM. The lessons learned from these pilots will be used to determine how to best integrate specific POPs into the future operations of the more formal distribution network being constructed by FIPAG's contractors as well as the new DMF for small and medium sized towns outside the Maputo-Matola corridor.

The POPs networks were historically constructed for individual households. As demand grew, some POPs evolved into business schemes to provide water services to entire neighborhoods of the peri-urban areas. The POPs systems are typically comprised of boreholes (source), water towers and HDPE tanks (Figure 4) and pipe networks. As illustrated in the graph below, most POPs serve less than 100 connections, while four POPs, with more than 500 connections serve about 31% of the households relying on POPs schemes.



Figure 2-4: HDPE Tanks used by the POPs

Acceptance of the important role of the POPs has increased in the last five years, and the key Government players have made efforts towards formalizing their operations. POPs have also advocated for more formalization of their operations, hoping for added security through licensing. An inter-agency committee, represented by CRA, FIPAG, DNA, the Ministry of Health, municipal governments, and others, initially defined the respective roles and responsibilities in licensing, monitoring, and supporting POPs operations. A baseline survey of POPs was conducted in 2007, assessing each POP's

water source, number of clients and connections, distribution network, organizational capacity and business skills, and problems and issues.

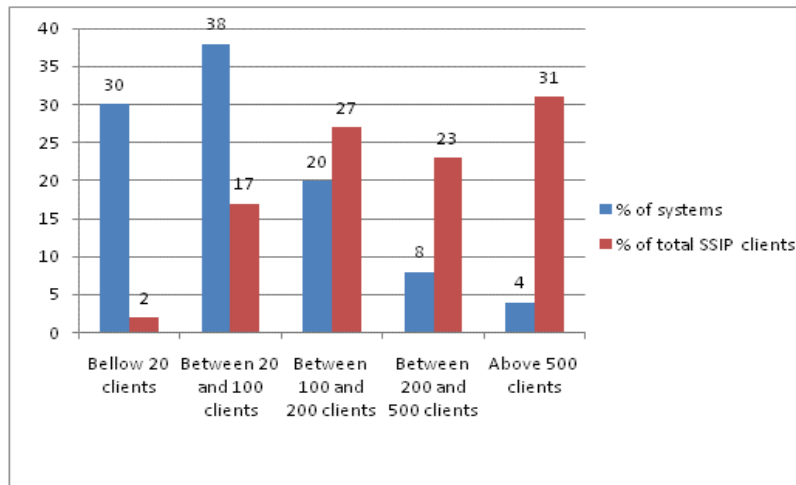


Figure 2-5: Chart showing the different proportion of POPs' customer base (Source: FIPAG)

FIPAG initially was responsible for issuing licenses and the first set was issued for a one-year period. These licenses are more like permits for the POPs to operate and mainly served the purpose of helping the government 'take stock' of the many and varied POPs entities.

The licenses require providing water of minimum quantity and quality, and encourage fair and

affordable water tariffs. Ultimately, CRA is supposed to enforce the conditions contained in the licenses, but the organization does not yet have the capacity or resources to do so and is contemplating alternative regulatory schemes for small systems (a World Bank Technical Assistance project is currently underway to develop the tools and procedures for regulating water service provision in non-FIPAG areas).

As of May 2010, 162 out of an approximately 250 POPs in Maputo had been issued one-year licenses. Recently, the MOPH transferred the licensing responsibility from FIPAG to DNA. Currently DNA lacks the licensing capacity or knowledge of the POPs to adequately issue and monitor these operation licenses. Some confusion presently exists within the government over the long-term operational roles of large and small providers in the management of the Maputo and Matola service area. However, in the short- and medium-term, a majority of the POPs will have a role to play in the provision of water and the in the longer term formalized SSIP arrangements are being promoted by government in new planned schemes in peri-urban areas and small towns. Skills and capacity improvements for POPs to better provide services to their customers, conform to regulatory and operational requirements, communicate with and report to relevant government agencies and stakeholders, and improve their businesses will be useful to the operation of the greater Maputo area and neighboring areas and, in time, other regions as the DMF for small and medium-sized towns is finalized and rolled out.

FIPAG has promoted the development of business associations to represent the POPs' interests and address their needs. Two associations have been legally formed to represent the approximately 400 POPs in Mozambique. The initial priority of both associations has been to advocate for the provision of longer-term licenses (five year minimum) and improved legal status and security for the POPs operations. Developing medium-term operational strategies has not yet become a priority for the associations. Additionally, the Scope of Work for the newly initiated World Bank-Financed technical assistance for DNA includes the establishment of a (national) Private Operators Association.

Given the number and importance of the POPs in the provision of water services in Maputo/Matola, coupled with the uncertainty surrounding their improved legal standing and appropriate regulatory oversight with respect to the formal FIPAG expansion of the network within the service area, and the Government's goal of formalized SSIPs providing services, the SUWASA project focuses on supporting rationalization of the regulatory framework; improving communications and relations between Government and POPs through their service associations; identifying the best use of these service providers in the context of improved FIPAG water distribution networks; and demonstrating the development of small-scale schemes through innovative public-private partnerships.

2.2 OVERALL GOAL OF THE PROJECT

The overall goal of the project is to improve the provision of water within the existing and expanded areas of Maputo and Matola by clarifying the operational framework within which POPs operate and improving the effective licensing system, by enhancing capacity of responsible government agencies to refine, issue and enforce licenses and service associations to support their members' by providing effective communications between government, customers, and operators – with the ultimate goal being the regularization of small-scale operators from the current POPs to formally contracted SSIPs.

2.3 INSTITUTIONAL SET-UP AND OVERALL PROJECT ORGANISATION

Several agencies will be involved in the POPs licensing system, the regularization of small operators and the tendering of contracts for small systems, including CRA, FIPAG, DNA, the Ministry of Health (MOH) and the municipalities of Maputo and Matola. However, the MOPH has delegated management and oversight responsibility to DNA, itself a department of MOPH, for the POPs licensing process, transferring this activity from FIPAG. Clarification of the roles and responsibilities for each of these collaborating institutions is a priority. The SUWASA Team will work directly with DNA to define an effective management system for issuing, monitoring, and updating licenses for the POPs and developing and tendering contracts for new small systems. The SUWASA Team will operate within the DNA offices, working with the Urban Water Division and other units responsible for managing this licensing, tendering, and monitoring system.

Although DNA has primary responsibility for managing the licensing system, CRA and FIPAG will retain responsibility for some key elements of the licensing network. CRA has overall regulatory responsibility and will ensure licenses meet all legal and regulatory requirements and that performance is monitored. FIPAG maintains the most comprehensive database on POPs and also has the responsibility for investing in and maintaining the most effective water supply network for supplying the Maputo and Matola service area. The final organizational framework, including the regularization of POPs and establishment of contracted SSIPs, must be overseen and agreed to by FIPAG.

The SUWASA Mozambique project Team composition, its management structure, and individual responsibilities are provided in Section 3.6.

2.4 MONITORING AND COORDINATION ARRANGEMENTS

2.4.1 INTERNAL MONITORING AND QUALITY CONTROL

Monitoring and quality control will be provided by the SUWASA Nairobi Team. The SUWASA Chief of Party (COP) will be responsible for project oversight, technical and programmatic supervision, and adherence to the Performance Monitoring Plan and the expected outputs and benchmarks. He will participate in the Inception Workshop and track both programmatic and management progress and results. The Team Leader will be responsible for providing adequate reporting and documentation on project results and progress against the approved work plan. Communications and reporting to USAID EGAT/NRM/W will be done by the SUWASA Nairobi Team, based upon results and communication with the Team Leader in Mozambique. The timing of all deliverables and outputs are specified in this RWP, and will be updated in the Inception Report as required, and the Team Leader will be responsible for reporting against these targets to the SUWASA Deputy Chief of Party (DCOP).

2.4.2 MONITORING AND EVALUATION PLAN

Based upon the initial proposed benchmarks and indicators of Section 3.3, the Team Leader, with assistance from the SUWASA M&E specialist based in Nairobi, will prepare a Monitoring and Evaluation Plan aimed at specifying all the expected SUWASA results; outcomes, deliverables, and proposed benchmarks; indicators for reporting to USAID; and monitoring periods and documentation required for performance audits and evaluations.

2.4.3 ENVIRONMENTAL COMPLIANCE MONITORING

This activity delivers primarily technical assistance and capacity building. No capital investments are envisioned. Accordingly, ERR and environmental mitigation plans are not required at this time.

2.4.4 REPORTING ON PROJECT PROGRESS

The SUWASA Team will ensure effective internal project reporting to SUWASA-Nairobi as well as reporting to USAID, stakeholders and relevant partners.

The following reports are required:

- Inception Report, including an updated Work Plan within 45 days after project start. This will include conducting a stakeholder Strategic Action Planning Workshop, with workshop results to be reflected in the Inception Report.
- Monthly Reports, including a narrative on the reporting period, discussing actual project progress vis-à-vis planned and agreed project schedules, and a financial resource utilization report; and
- Final Report, including all activities performed, results achieved and resources used.

This SUWASA Mozambique project will undergo a mid-term review, conducted by Tetra Tech ARD and/or USAID.

2.5 PROJECT PARTNERS' CONTRIBUTIONS

DNA will host the SUWASA project within its offices in Maputo, covering rent and utilities and may consider providing basic office furnishings for project operations. Additionally, technical staff from DNA, CRA, and FIPAG will participate in activities directly relevant to their mandate and operations for POPs licensing. These contributions are accounted for in the Resource Table of the RWP (Section 4.0).

USAID/Mozambique currently does not plan to provide funding for complementary support to the SUWASA activity. However, the mission has indicated an interest in this activity and if possible, would entertain proposals for complementary funding under the next fiscal year's Water for the Poor Act earmark obligations. Close communication with the mission is necessary to assure smooth project implementation and potential leveraging of bi-lateral activities.

3 PROJECT DESCRIPTION

3.1 SPECIFIC OBJECTIVES TO BE ACHIEVED BY THE PROJECT

The proposed activity has the following objectives:

- Assist DNA to define a clear strategy on the POPs in the evolving institutional, operational, and regulatory framework the Mozambican urban water sector. Further refine the policy, legal and regulatory framework for small-scale providers, including clarifying requirements for licensing and monitoring of POPs to ensure adequate water quantity and quality of service and defining roles and responsibilities of key government partners for licensing, reporting, and monitoring;
- Work through existing POPs associations (local to Maputo/Matola), and/or the proposed new Private Operators Association to be established by the World Bank-financed TA project (national), to provide a more effective channel and forum for communications between the POPs and Government with a goal of assisting in rolling out service standards and reporting practices;
- Demonstrate best practices for normalizing the institutional roles and relationships of provision of water through small-scale operators within the expanded service area; and

3.2 TASKS AND RESULTS TO BE ACHIEVED BY THE PROJECT

The project contains three components to support GOM in implementing a comprehensive system for clarifying, monitoring, and improving the operations of small-scale providers of water:

1. Strengthening the Policy Legal, Operational, and Regulatory Framework for Small Scale Infrastructure Providers of Water
2. Supporting the Regularization of POPs
3. Developing Pilot/Demonstration SSIP Projects

Current Mozambique Water Sector Legal and Institutional Framework Development

Mozambique's water sector reform through decentralization, private sector participation, and effective regulation has already brought early successes in meeting the country's urban water sector objectives and now seeks to address peri-urban and small towns' needs. Concluded earlier in 2010, a World Bank-financed Technical Assistance project supported the Government in establishing the legal and institutional environment for expanding delegated management into non-FIPAG areas. The project comprised of:

- Creation of an Asset Management Unit (AIAS);
- Creation of Public Water Boards;
- Development of Coordination and Cooperating Agreements between service providers and government;
- Dissolution/Liquidation of Existing Parastatal Operating Companies;
- Corporatization of Municipal, District, or Local Administrations that Historically Provide Water Services; and
- Expansion of the Mandate of the Regulator (CRA).

In late 2010, the Government concluded the

The three components are described below with the main activities presented in the timeline table.

COMPONENT 1: STRENGTHENING THE POLICY, LEGAL, OPERATIONAL AND REGULATORY FRAMEWORK FOR SMALL SCALE INFRASTRUCTURE PROVIDERS OF WATER (COUNTERPARTS: FIPAG, DNA, CRA)

The objective of this component is to strengthen the enabling framework within which the existing POPs and future SSIPs operate in the context of the overall strategic directions being pursued by FIPAG in expanding the supply and distribution of water within the greater Maputo-Matola service area and, potentially, the DMF for small and medium-sized towns.

Additionally Government is seeking a coordinated spokes-group(s) with which to dialog and reach agreement on operational and performance standards and procedures as well as to effectively and efficiently communicate changes in the framework to the large network of POPs (see Task 1.D).

Task 1.A Assist GOM in Developing Policy Objectives and Dissimilating a Clearly Defined Policy Statement on POPs and SSIPs

- Design a strategy on the future role of POPs
- Compile all studies undertaken on POPs as well as best practices from the region.
- Develop a situation analysis
- Conduct a Stakeholder Workshop & Consensus Building Activities

Task 1.B Assist in the development of the legal and institutional framework for the formalization/regularization of POPs and establishment of SSIP arrangements

- Assess current legal standing of POPs and legal provisions for SSIPs
- Draft required legal instruments for formalizing the POPs' as legitimate businesses
- Assist POPs in preparing and filing required documents for incorporation/re-incorporation
- Draft required revisions to legal/regulatory framework for SSIPs
- Draft model MOUs, contracts, and bid and tender packages for SSIPs

Task 1.C Assist in the development of the regulatory framework for monitoring POP and SSIP operations and enforcing regulations

- Draft regulatory policies and guidelines for enforcing POPs licenses and conducting

Mozambique's Small Piped Systems

Management Models (PSAA) The Manual for the Implementation of Management Models for Small Water Supply Systems Management (PSAA – Manual de Implementação das Modalidades de Gestão dos Pequenos Sistemas de Abastecimento de Água) was approved by Ministerial Diploma 5/2006 of January 17.

The PSAA manual consists of a transitory experimental instrument for the new management models of the PSAA and will be duly institutionalized within the framework of the Manual for the Implementation of Rural Water Supply Projects (MIPAR: Manual de Implementação de Projectos de Abastecimento de Água Rural) .

In accordance with the principles established by the Water Policy, the Government formulated the PSAA manual with the objectives of: (a) facilitating private participation in the management of small water supply systems; and (b) defining an operational model for an efficient control of the activities carried out by autonomous operators.

- compliance monitoring and enforcement of SSIP contracts
- Assist in clarifying regulatory roles and responsibilities of national and local government bodies with respect to small scale services
- Assist in the development of technical and financial performance benchmarks, required quality of service standards, POPs and SSIP reporting requirements

Task 1.D Assist in Improving Public-Private Dialog

SUWASA will support improving communications channels and methods, utilizing existing POPs associations and/or the planned Private Operators Association Improve Communications and Cooperation between Government and POPs and plan for inclusion of future SSIPs by:

- Developing a Memorandum of Understanding for how the Government and POPs/Private Operators association(s) will work together and communicate regularly;
- Organizing a working group and launching bi-annual working group meetings between concerned government bodies, management/lease contractors, POPs, and SSIPs to discuss issues related to development of the sector and small scale operators;
- Developing communications and awareness building strategies, as well as roles and responsibilities for informing POPs and SSIPs of evolving regulatory requirements and modifications to operational structures.

COMPONENT 2: SUPPORTING THE REGULARIZATION OF THE POPs

Recent developments that led to the FIPAG taking over management of AdM's do not impact negatively on the need to develop clear regularization of the POPs. During the next two years, several improvements will be undertaken to expand the supply and distribution of the water into some areas currently covered by POPs. The institutional coordination and organization arrangements for operating and managing the expanded FIPAG network, including the coordination with POPs, are unclear.³ Some within FIPAG envision a role for some of the more capable POPs in managing some of the newly emerging and semi-autonomous small distribution systems. AdM and FIPAG are currently piloting the management of three small/medium systems in Libertidade, Boane, and Katembe, using qualified Mozambique private operators, and the lessons learned may well be incorporated into a model for managing additional schemes within the expanded network. It is envisioned that these systems would be managed by medium-sized Mozambican special purpose companies and that SSIPs will continue to be components of supply systems, rather than manage them entirely.

Task 2 objectives will be achieved through the following two sub-tasks⁴:

Task 2.A Support *Regularization* of POPs

- Review and make recommendations on draft short term licenses (<2 years)
- Develop minimum performance standards (e.g. water quality)
- Define a 'light-handed' regulatory approach for this interim transition period.
- Assist in preparing government and POPs for transition to the operational phase

³ The results of 2010 IFC-funded consultancy addressing institutional options for managing the expanded system, including the role of private operators and the POPs, may become available.

⁴ Note: direct support from SUWASA to POPs will be limited to those POPs with active licenses. SSIPs in new service areas, because they are working through formal agreements with the GOM from day one, will be eligible for SUWASA support under this program.

Task 2.B Support Operationalization of POPs/SSIPs

- Define different classes of service providers and develop license templates for each class (approx. 7 year duration)
- Develop comprehensive performance standards and procedures for monitoring compliance (water quality, coverage rate, supply hours, pressure, losses, customer services, etc.)
- Assist in rolling out effective regulatory procedures (through SSIP association(s) and other channels)

COMPONENT 3: DEVELOPING PILOT/DEMONSTRATION SSIP PROJECTS

SUWASA will assist the GOM to manage the entire tender process for specific pilot transactions. Using the model agreements and marketing strategy, we will assist DNA to customize the tender documents; develop a tendering timeline; prepare and implement the marketing plan; and participate, as required, in the bid evaluation and negotiation.

While it is too early to tell which project(s) will be selected for tendering, the SUWASA-SSIP Team will provide the support during this process to ensure a transparent, efficient, and effective tendering experience. We will develop an on-the-job training module surrounding the pilot tendering projects to train key staff on how to manage a tender process that will earn the confidence of the bidders and the customer, as well as other government stakeholders and main lease operators. This training module will include the preparation of a strategy to ensure that the tendering of projects in Mozambique is done transparently and in a timely fashion

Task 3.A Develop Lease Contracts to operate new public water supply systems

The Team will assist GOM in preparing and tendering provision of small scale water services through structured lease arrangements. These projects would follow a basic model of FIPAG providing the “bulk water) source” to a service area, and then the SSIP (lessee investing, building, and maintaining the distribution network. The SSIP would also be responsible for customer outreach, billing and collection, etc. all the typical attributes of a lessee, but on a smaller scale.

Activities under this task will include the following

- Build the project pipeline: work with GOM to identify and select up to five pilot service areas for new lease contracts with SSIPs
- Design lease contracts for SSIPs in new service areas with all the terms and conditions
- Conduct prefeasibility analysis and prepare projects for tender
- Assist GOM in marketing and tendering of up to five projects through to contract signing

Task 3.B Develop PPPs between the main operator and POPs (leased areas, such as service contracting/outsourcing and franchise arrangements)

In addition to formal lease arrangements for provision of water services on a small scale in peri-urban areas as described in Task 3.A, there are several other identified opportunities for small scale PPPs for improving water services in the Maputo/Matola area. These do not necessarily involve the actual provision of water services and build on expertise and client relations of POPs operators. They also provide an “exit” opportunity to POPs operators whose operations must cease due to, for example, main operator expansions or water source contamination. SUWASA has discussed with GOM the possibility of the following types of PPPs between AdM/FIPAG and POPs/former POPs operators:

- Service contracts for metering, billing, collection. The POPs are particularly well-placed for these services, knowing the customer make-up and with an impressive track record of collections.
- Non-Revenue Water (NRW) management contracts, along the lines of the innovative pilots SUWASA team members established in Amman, Jordan.

Franchise agreements with AdM/FIPAG to distribute water from the formal network, The above are just illustrative projects, there are more possibilities and the Team will assess with GOM, which are most feasible. To assist the GOM in establishing these arrangements the SUWASA team will:

- Develop a small scale PPP policy and strategy
- Confirm the types of small-scale PPPs to be analyzed and procured
- Agree on contracting parties to the PPP arrangement –FIPAG or Main operator
- Design agreements for implementation of the PPPs
- Support the tendering and negotiation of up to three contracts (preferably of different types)

4 ASSUMPTIONS AND RISKS

One potential risk affecting project implementation is lack of cooperation and coordination among the key agencies responsible for managing the water supply network for Maputo.

5 LINKAGE WITH OTHER USAID OPERATIONS, COMPLEMENTARITY WITH OTHER WSS REFORMS.

USAID Mozambique has expressed support for the SUWASA project, although currently lacks specific funds that could be used for co-funding or buy-in to the activity. Some future initiatives, such as the USAID SPEED project, will support the development of business associations, and some opportunities might exist for the POPS associations to participate in these training events.

The USAID/Mozambique mission would like a simple but comprehensive communication and coordination process for informing and appropriately involving USAID staff in key events and

activities. A contact person for the mission has been designated and the SUWASA Team will ensure adequate communication on planned activities, project progress and outcomes and opportunities for joint programming.

The MCC compact with Mozambique contains approximately \$203 million for water and sanitation infrastructure improvements in three municipalities (Pemba, Nampula and Quelimane) and five medium towns all of which are in the North of the Country. Currently, feasibility studies are being conducted to determine the water supply and sanitation needs and programming for these locations and investments will be made in water supply and sanitation infrastructure, including drains, solid waste, sewerage, latrines and septic systems, and more informal systems. MCC is also in the process of procuring independent engineering services for system design review and construction supervision. This contract will also include support to AIAS and capacity building activities. However, since these funds are programmed for the northern region of Mozambique, MCC co-funding is not available for this project. This support from the MCC also includes establishment of an investment authority termed as PASU –similar to the FIPAG.

The Water and Sanitation Program (WSP) indicated strong potential support to the SUWASA activities, although limited financial support would be available for the POPs support program unless this model is rolled out into one or more of the municipalities or small and medium towns. WSP does have some additional funds available under the OBA. However, WSP's priority in Mozambique is developing a framework for delegated management of sanitation services through AIAS (through a World Bank loan program). A new initiative is the Domestic Private Sector Participation (DPSP) initiative financed by DfID. This project will work in close collaboration with the SUWASA. While SUWASA will include regulatory frameworks, the DPSP initiative.

The Agence Française de Développement (AFD) has been supporting POPs under the MWSP for the last five years. The SUWASA project complements this activity, as it has worked directly with the POPs as part of the FIPAG program to understand and support these small-scale operators.

6 PERSONNEL AND MANAGEMENT PLAN

The SUWASA Team will be comprised of three staff, operating out of DNA's offices in Maputo, supported by local and international Short Term Technical Assistance (see Chart 3.1):

1. **Team Leader (Full Time, Local Expert)** – responsible for overall project management, including client relations, strategic and annual work planning, budgeting, team supervision, communications and reporting, and fiduciary oversight. S/he will report to the SUWASA Deputy Chief of Party and coordinate all project activities with the DNA National Director or his delegated program manager. The Team Leader will provide guidance and management oversight to the technical assistance team and the administrative staff. S/he is responsible for keeping key partners and relevant donor representatives informed of and appropriately engaged in the project's activities.
2. **Communications Specialist (Intermittent, Local Expert)** – responsible for developing and implementing the communications strategy and activities for and between POPs/SSIPs

association(s) and their membership and Government (DNA, FIPAG, CRA, and other stakeholders). The Communications Specialist will design and operationalize the communications and coordination framework and supporting events and activities necessary to strengthen public-private dialog in the water supply sector. S/he will assist the Team Leader in outreach and coordination efforts with other USAID, donor-supported TA activities, and relevant Government initiatives. S/he will also spearhead broader private sector outreach activities. S/he will represent and manage project activities in the absence of the Team Leader. The Communications Specialist will report directly to the Team Leader.

3. **Legal (Intermittent, Local)** - The expert(s) will assist in the legal/regulatory framework development and prepare bid documents and tender contracts for the operation of services. Familiarity with Mozambique's legal and regulatory context for the services, experience in drafting and tendering contracts for private operation of water supply and sanitation services, and fluency in Portuguese are required.

4. **Administrative and Finance Officer (AFO) (Full Time, Local Specialist)** –responsible for managing all logistics, administration, and communications for the SUWASA—Mozambique team. The AO will liaise closely with appropriate DNA staff on all aspects of administration and finance necessary to operate the project in coordination with Government. S/he will have oversight and management responsibility for all employment contract monitoring, equipment inventory, vehicle operations, and other administrative activities of the project. The AFO will be also responsible for managing all financial operations of the project, including financial reporting, purchasing and disbursements, cash management and fund requests, taxes and VAT reporting, banking and account reconciliation, and record management. S/he reports directly to the Team Leader.

Short Term Technical Assistance:

- Regulatory Specialist – Economic and Technical aspects (international)
- Utility Operations/Finance/Management (international)
- Procurement Specialist (local)

The project will be hosted in the DNA offices in Maputo. The Team Leader, the official representative for SUWASA in Mozambique, will report to SUWASA's Nairobi-based Chief of Party. The Team Leader's main counterpart agency will be DNA, with close collaboration with FIPAG and CRA. The Team Leader will also ensure appropriate communication and reporting to USAID/Mozambique on the planned activities and major accomplishments and alert the Mission to opportunities for potential involvement or collaboration with relevant projects.

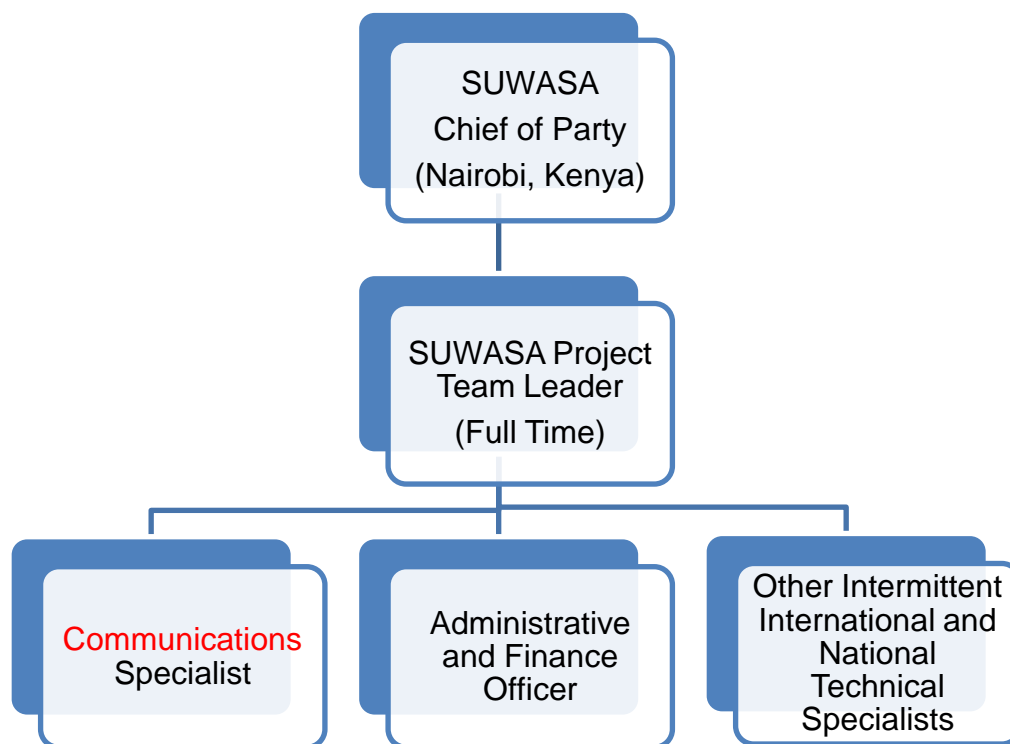


Chart 3.1. Project Staffing

Project supervision and management oversight will be provided by the SUWASA Nairobi team. Supervision missions will be conducted and the SUWASA Deputy Chief of Party will participate in all major project work planning and evaluation activities.

During project start-up, the following will be completed:

Administrative and Logistical: Modalities and requirements for operations and disbursement approvals will be agreed with SUWASA Nairobi and the technical and field management teams will be operational within the first two months of project start-up. An Inception Report will be produced within 45 days of project start-up.

Programmatic: Discussions with key government agencies will be conducted during the first month and the work plan will be reviewed with representatives from DNA. This will form the basis for the inception report.

Planning: A Strategic Work Planning Workshop will be conducted in Week 7. Workshop participants will be representative of DNA, CRA, FIPAG, and other GOM and local government

agencies, POPs, SUWASA DCOP and/or the M&E specialist USAID/Mozambique and relevant ICPs, other appropriate stakeholders. They will actively review the Scope of Work, clarify the vision for the project, review and refine the strategies and results in order to finalize the First Annual Work Plan.

7 RESOURCE TABLE AND PROJECT TIMELINE

The total budget commitment for the project is \$1,024,422 (One million and twenty four thousand four hundred and twenty two United States Dollars).

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Activity		Months																							
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
1.0	Project start up phase																								
1.1	Mobilize Team	◆																							
1.2	Deliver Inception Report		◆																						
COMPONENT 1: Strengthening the Legal, operational and regulatory framework for the POPs																									
2.0	Task 1.A: Assist in the development of the legal and institutional framework for POPs																								
2.1	Establish POPS Inter-agency Advisory Committee (IAC)																								
2.2	Assess current legal standing of POPs and legal feasibility of SSIPs																								
2.3	Draft required legal instruments for formalizing the POPs' standings as legitimate businesses																								
2.4	Assist POPs in preparing and filing required documents for incorporation/re-incorporation																								
2.5	Draft required revisions to legal/regulatory framework for SSIPs																								
2.6	Draft model MOUs, contracts, and bid and tender packages for SSIPs																								
2.7	Define regulatory framework for the POPs																								
2.8	Define minimum and optimal standards for license compliance																								

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